

Message Text

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EO 11652: NA
TAGS: EIND, EINV, SL
SUBJ: TAX AMENDMENT

SUMMARY: THE BURDEN OF THE SIERRA LEONE INCOME TAX ACT AND RELATED RULES AS AMENDED ON DECEMBER 23, 1977, FALLS PRINCIPALLY ON THOSE ORGANIZATIONS AND INDIVIDUALS ALREADY HEAVILY TAXED. NEW TAXES WILL AFFECT FOREIGN INVESTMENT BY RAISING THE COST OF OPERATING IN SIERRA LEONE. THIS ATTEMPT TO INCREASE REVENUE HAS BEEN SEVERELY CRITICIZED. END SUMMARY.

1. THE TAX LAW AMENDMENT AFFECTS FOREIGN INVESTMENT BY TAXING PERSONAL BENEFITS AND COMPANY MANAGEMENT CONTRACTS. NOW TAXABLE ARE BENEFITS IN KIND SUCH AS HOUSING, DOMESTIC SERVANTS, VEHICLES AND ELECTRICITY PROVIDED TO EMPLOYEES OF PUBLIC AND PRIVATE ORGANIZATIONS. TAXATION OF THESE BENEFITS WILL RAISE THE COST OF DOING BUSINESS TO COMPANIES DEPENDENT ON EXPATRIATE AND SENIOR PERSONNEL--PARTICULARLY MINING VENTURES. GROSS SALARIES WOULD HAVE TO BE INCREASED BY ABOUT 25 PERCENT FOR EMPLOYEES TO RECEIVE THE SAME NET AFTER TAX.

2. AS AMENDED, THE LAW TREATS HEAD OFFICE MANAGEMENT CHARGES
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AS EXPENDITURES INCURRED OUTSIDE SIERRA LEONE, DEDUCTABLE ONLY IF THE COMMISSIONER OF INCOME TAX IS SATISFIED THAT THE CHARGES ARE FULLY JUSTIFIED. FOREIGN COMPANIES WITH NATIONAL SUBSIDIARIES WILL HAVE TO BE CIRCUMSPECT IN ACCOUNTING FOR THESE EXPENDITURES.

3. SUBSIDIARIES OF FOREIGN COMPANIES GENERALLY ABIDE BY THE

COUNTRY'S TAX LAWS. TAX EVASION IS MOST PREVELANT AMONG SMALL TRADERS--PREDOMINANTLY LEBANESE. IT IS UNLIKELY THAT THE AMENDMENT WILL IMPROVE COLLECTION INEQUITIES, BUT WILL FURTHER BURDEN AN ALREADY DEPRESSED INDUSTRIAL SECTOR. MORE-OVER, FISCAL POLICY UNILATERALLY DEvised AND IMPLEMENTED WITHOUT CONSULTATION WITH LIBERIA REFLECTS POORLY UPON THE FUTURE OF ECONOMIC INTEGRATION WITHIN THE MANO RIVER UNION. A MORE ATTRACTIVE LIBERIAN INVESTMENT CLIMATE, DUE TO LOWER TAXES, WILL PROMOTE UNEQUAL DEVELOPMENT WITHIN THE UNION. SIERRA LEONE'S ALREADY HIGH PERSONAL TAX (57 PERCENT ON INCOME OVER LE19,200) AND COMPANY TAX (55 PERCENT) COMPARES UNFAVORABLY WITH LIBERIA'S LOWER TAXES, FREE PORT AND LONGER TAX HOLIDAY FOR NEW FIRMS.

4. PRESIDENT OF THE CHAMBER OF COMMERCE, AS WELL AS BUSINESS LEADERS, ARE URGING REPEAL OR REVISION OF THE LAW. ALTHOUGH PRESIDENT STEVENS SAID THAT GOVERNMENT WOULD INVESTIGATE THE EFFECT OF THIS AMENDMENT, HE WAS REFERRING TO A COLLECTION PROVISION AFFECTING RENTS. CONCERNED TAXPAYERS DO NOT KNOW WHETHER PERSONAL BENEFIT AND MANAGEMENT CONTRACT TAXES WILL ALSO BE REVIEWED. NEW TAXES AND COLLECTION PROCEDURES MAY PROVIDE SOME NEEDED REVENUE, BUT THE DISINCENTIVE TO INVESTMENT AND PRIVATE INITIATIVE MAY BE MORE COSTLY THAN IMMEDIATE REVENUE GAINS. THE GOSL MUST REALIZE THAT ACTION ON ONLY ONE SIDE OF THE BALANCE SHEET WILL NOT SOLVE ITS BUDGETARY

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PROBLEM, WHICH IS ESSENTIALLY ONE OF OVER EXPENDITURE.
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